Claims of US "recovery" look premature

Nick Beams
7 February 2002

When preliminary US national accounts figures were released last week most media attention focused on the report that gross domestic product had expanded at an annualised rate of 0.2 percent in the fourth quarter of last year. This was generally hailed as a sign that, despite predictions from economists of a one percent contraction, the US economy was making a swift recovery from recession.

Many reports featured comments along the lines of remarks by Diane Swonk, chief economist at Bank One in Chicago, who said the US was "well positioned for a recovery" and that "we almost have to look back and call this a recession-ette, rather than a recession."

However, in the figures accompanying the headline report of 0.2 percent growth, there was one statistic that pointed to the possibility of a very different future for the US economy. This was the news that prices in the last three months of the year had fallen by 0.3 per cent—the first such decline for 50 years.

Bearing in mind the old saying that one swallow does not make a summer, the statistic nevertheless does point to the danger of a deflationary downturn in the US economy.

That prospect is also indicated by some of the other figures. The most significant factor contributing to the positive growth rate was consumer spending. It rose 5.4 percent in the fourth quarter compared to 1 percent in the third. The biggest single increase was spending on consumer durables—in particular cars as a result of temporary zero interest financing—which rose at an annual rate of 38.4 percent.

As the *Financial Times* noted: "Without this effect, economic growth would have declined at a rate greater than 2.5 percent in the fourth quarter."

Moreover, it continued, "[T]he spending spree on durables has prompted a surge in household debt. It stands at record levels relative to household income. More worryingly, debt service levels have also hit a record high, indicating high default risks if interest rates or unemployment were to rise. With nominal GDP falling in the fourth quarter because of falling prices, the burden of that debt is bound to rise, extending stretched household balance sheets yet further."

The extent of that "stretching" can be seen in the growth of consumer credit. After rising by $11 billion in October, it increased by a record $20 billion in November.

It is clear that a US recovery cannot be brought about through continued increases in consumer spending such as that which took place over the past three months.

With the recession having been brought on by a sharp decline in capital investment in the wake of the collapse of the share market bubble, it is here that an upturn is needed if the US economy as a whole is to expand.

But the figures point to a different scenario. Business investment in the fourth quarter declined by 12.8 percent, outstripping the fall of 8.5 percent in the third quarter. Capital investment has now fallen for four quarters straight and no prospect of a revival is in sight.

According to Jerry Jasinowski, the president of the National Association of Manufacturers, while a recovery seemed to be unfolding, capital investment and trade remained weak. "It would be a big mistake to say we're out of the woods," he said. "Capital investment on equipment is dead in the water, and remains dead in the water for as far as the eye can see."

One reason for this is that capacity utilisation continued to fall in the fourth quarter and has now reached its lowest level since July 1983. With a growing proportion of their existing plant unused, and facing falling, rather than rising prices in the market, businesses will be increasingly reluctant to make new investments, no matter how low interest rates fall.

While US commentators and economists are generally upbeat about the prospects for the American economy, their international counterparts are much less

© World Socialist Web Site

optimistic.

According to a report in the *New York Times*, the divide was clearly evident at the World Economic Forum (WEF) meeting held in New York. While American commentators focused on sustained consumer spending, international observers concentrated on “dwindling profits, mounting debt and the constant shrinking of corporate operations.”

Former British chancellor of the exchequer, Kenneth Clarke said the shakeout would “last longer than the Americans seem to realise.” Klaus Zimmermann, president of the German Institute for Economic Research in Berlin, said recovery was not going to happen this year. “A lot was invested in high-tech equipment for the new economy and that has to be used up before investment picks up and the American economy with it.”

There was, however, one area of agreement—there would be no upturn in the global economy unless it was pulled forward by the US.

A participant in the WEF, Morgan Stanley chief economist Stephen Roach put in his report on the discussions: “There is widespread agreement that America remains the only engine of growth in the global economy. Breaking the vicious circle of a world in synchronous recession is up to the United States. Japan, by contrast, was viewed as the greatest risk to the global economy. Two possibilities were offered as the mechanism for collateral damage—either a sharp weakening of the yen or a crisis in the banking sector. And there was great concern that it may not be either-or.”

Furthermore, as Roach and a number of other commentators have noted, the optimistic scenario in which US growth pulls forward the rest of the world economy, leads to an ever-widening, and ultimately unsustainable, US balance of payments deficit.

At present, the US current account deficit of more than $400 billion is around 4 percent of GDP. If the US economy does grow at a rate sufficient to sustain the world economy, the payments gap will blow out to 6 percent of GDP by 2003. At this level, the US would require a daily inflow of capital from the rest of the world of around $2 billion just to finance its payments gap.

The fear in some financial circles, at least those with a more long-term view, is that before such a position were reached there would be a crisis of confidence in the dollar, leading to a rise in interest rates, and a rapid slide into recession.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site